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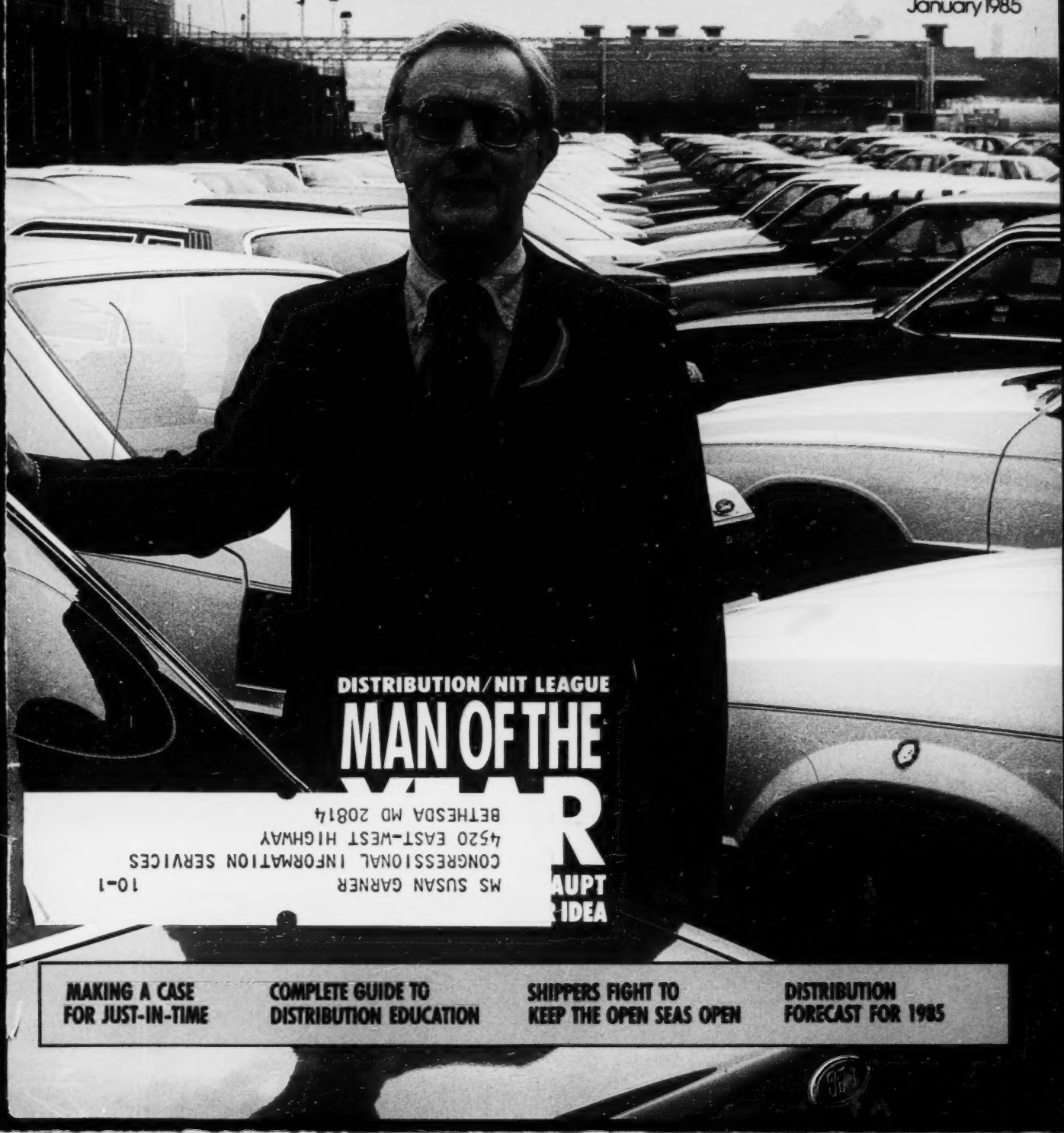
January 1985



DISTRIBUTION/NIT LEAGUE

MAN OF THE YEAR

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MAKING A CASE FOR JUST-IN-TIME

COMPLETE GUIDE TO DISTRIBUTION EDUCATION

SHIPPERS FIGHT TO KEEP THE OPEN SEAS OPEN

DISTRIBUTION FORECAST FOR 1985

VOL. 84, NO. 1

Chilton's
DISTRIBUTION

JANUARY 1985

ESTABLISHED 1901

COVER STORY

10 DISTRIBUTION'S MAN OF THE YEAR
Another champion from the Motor City is crowned—this one for displaying a remarkable ability to keep his head about him while many around him are losing theirs.

FEATURES

16 DISTRIBUTION CASEBOOK
Our annual January feature looks at how some gritty companies have not only survived the business world jungle, but are prospering in it.

24 DISTRIBUTION FORECAST
An expanded look ahead to the coming year, outlining expectations for the next twelve months, provides food for thought to both bulls and bears.

28 IS IT ALL GREEK TO YOU?
Not to worry—these socratic institutions can translate your career-oriented ambitions into usable knowledge.

44 SHIPPERS FIGHT TO KEEP THE OPEN SEAS OPEN
U.S. shipper interests are finally being taken to the international maritime bargaining table. But is the small shipper being represented?

17

COLUMNS

4 EDITORIAL By Joseph V. Barks
Onward and Upward

7 DIALOGUE
Customs Service takes shippers' heat

50 WASHINGTON By Stan Chapman
Staggers returns to center stage

54 ANSWERS & AUDITS
Alarm not so false

56 HAZARDOUS MATERIALS By Bob Jordan
Getting in training

60 SMALL SHIPMENTS By Joseph V. Barks
Will Californians leave LTL shippers out in the cold?

62 LAW By Colin Barrett
After-the-fact exemptions nullify tariff rates

63 MANAGEMENT By Dick Lancioni
Yardsticks for managing the new year

65 TRUCKING By Kurt Hoffman
A California model all shippers find ugly

73 RAIL By Frank E. Shaffer
Which are the real waves of the future?

76 DISTRIBUTION & WAREHOUSING By Denis Davis
Priming the computer pump

80 SHIPPER/CARRIER By John Betz
Bankruptcies—a high-stakes game

DEPARTMENTS

4 EDITORIAL STAFF

85 LITERATURE

88 GUIDE TO PUBLIC WAREHOUSES

89 READER SERVICE CARD

94 CLASSIFIEDS

96 LAST PICKUP
1985 Computer Software and Systems Directory

NEXT ISSUE

COMPUTERS

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DIALOGUE

Our annual October look at trends in international distribution included a look at the ticklish problem of combining import and export with national security consideration in such a way as to provide both a profit for private business and a safeguard against leaks of hech-tech and defense-sensitive technology. Your responses to our Dialogue questions indicate indicate that the tough assignment of satisfying both of these needs has been made even more difficult, and less tasteful, by Customs Service officials with less than helfpul attitudes.

"It takes a week to get a shipment cleared in Los Angelese, and 3-4 days to get it signed."**—E. J. Murray, import manager, Allied of Chicago, Inc., Chicago**

"Customs offices in the Boston-New York-Baltimore megalopolis are slow, and their attitude is, 'No hurry, tomorrow, tomorrow, tomorrow.' "**—Unsigned.**

"We've been slowed down by knot-picking inquiries requiring hours of engineering time and explanations on similar and duplicate entries."**—Unsigned.**

"I've experienced loss of paperwork, little or no response to my phone calls, and lack of firm regulation information."**—Unisigned.**

"We export textile products around the world. Customs has been very helpful to us. But imports are hurting textile companies."**—Unsigned.**

"Customs mutilated sample garments from Brazil because they were imported without a visa."**—Philo M. Remidios, traffic manager, Levi Strauss International, San Francisco.**

"I've had Customs demand to inspect imported goods after they had already been examined once and released. this was 120 days after the goods had cleared and they had already been sold."**—J. R. Johnson, traffic manager, Wiebolot Stores, Inc., Des Plaines, Ill.**

"Duty rates are not consistent although the products we export and import are of a similar nature."**—Ken Seigel, traffic manager, Scott Laboratories, Inc., W. Warwick, R.I.**

"C.F. 28 inquiries are too general and vague. Customs officers and specialists should be more specific about the information they need."**—Richard Roeding, traffic manager, Burroughs Corp., Paoli, Pa.**

"Importers should be bonded and licensed. If spot checks show abuse of regulations, the licenses should be revoked. We import and have little trouble."**—V. H. Zelov, director of purchasing, VIZ Manufacturing Co., Philadelphia.**

"We recently shipped high-tech equipment that was state-of-the-art

continued

QUESTION OF THE MONTH

Just when you thought it was safe to kiss Washington goodbye, it looks like this might be a year when you'll have to renew close acquaintences with the workings of that confounded city.

With deregulation measures now having been enacted for every major mode of transport, it appeared shippers and carriers would be able to devote much of their dealings to the "real world" in 1985. But now the industry is abuzz with rumblings about the neal to fine tune, or even overhaul, what has been accomplished legislatively in the past four years.

The Staggers Act promises to get the most immediate and intense scrutiny (see "Washington," p.50). But the are powerful people who would also like to tinker with what we're just now getting used to with respect to trucking, maritime, and export areas, to name a few. This prospect frightens some who feel that years of progress are threatened.

Should Washington leave well enough alone, or is it time to act now before some real fires get ignited later on? This month's Dialogue card (below) gives you the opportunity to send a message to the people who are supposed to act on ***your*** behalf.

DIALOGUE

• Do you consider the deregulation movement to now be complete, or is there more that needs to be done?
_____it's complete _____more needs to be done

• Which are the areas that you feel are most in need of Washington's immediate attention? (check all that apply)
_____Staggers Act _____highway and fuel taxes
_____maritime cargo-reservation laws _____export legislation
_____sunsetting the ICC _____antitrust/merger issues
_____other (describe): _____

• Which are the areas where Washington should leave well enough alone? (check all that apply) _____Staggers Act
_____highway and fuel taxes _____export legislation
_____maritime cargo-reservation laws
_____the ICC _____antitrust/merger issues
_____other (describe): _____

• Are you already involved, or do you plan to get involved, in shipper groups such as SCOT or the Pro-Competitive Rail Steering Committee, to make sure shipper input is heard in Washington this year? _____yes _____no _____not sure

Here is the message Washington should hear as it ponders what to do next:

_____

_____

_____

_____

_____

OPTIONAL: _____

_____

NAME (print) _____ TITLE _____

COMPANY _____ PHONE _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

FIGURES IN SPEECH

(Quotes from transportation and distribution notables that caught the ears of DISTRIBUTION Editors while covering the industry meeting and seminar circuit:)

"This industry (bar code technology) is maturing. AIM (Automatic Identification Manufacturers) now has 50 members. Readers can read more than one code now. The Europeans are into it; they are about two years behind, and the Japanese are coming."
—David J. "ZAP" Czaplicki, manager-reader marketing group, Intermec Corp., at Scan-Tech '84.

•

"Artificial manipulation of railroad coal rates isn't going to increase coal production by any meaningful amount. It isn't going to make even a small dent in the country's efforts to reduce its use of imported petroleum. And to the degree it imperils the railroad industry's fragile revitalization, such manipulation would actually prove counterproductive, undermining both goals.

The current system is, in fact, working. Coal production is increasing, and will likely continue to increase. And no one is required to pay exorbitant prices."
—William H. Dempsey, president, Association of American Railroads, before the National Association of Regulatory Utility Commissioners in Los Angeles.

five years ago, but that has since been upgraded. We exported it to Red China, and of course they did not receive our upgraded version. Close work with the government from the time we received the order through the shipment ensured a profit for us with no national security risk."**—David Crawford, traffic manager, Aydin Controls, Fort Washington, Pa.**

"My experience with Customs has revealed a lack of knowledge and judgment, inability to communicate effectively, inaccessibility due to poor work habits, arrogance, lack of uniformity in interpretation of published regulations, and poor leadership."**—George M. Hood, manager of distribution and international traffic, Smith & Wesson, Springfield, Mass.**

"I have a suspicion that occasionally Customs agents will slow down in order to go over a shift or day change, to pick up some overtime pay. Very frustrating!"**—Unsigned.**

"Customs is characterized by arrogance, abuse of power, lack of knowledge, incompetence. Put Customs enforcement under the control of private business. Anything works better than government agencies."**—Unsigned.**

"Inbound household goods containers have been moved to a bonded warehouse, unloaded, reloaded and open for inspection by Customs, all at shippers' expense."**—Richard Johann, manager of transportation services, Sundstrand Corp., Rockford, Ill.**

CUSTOM-MADE FOR SHIPPERS?

We need tighter Customs enforcement, not new import regs	60%
disagree	31%
U.S. should be more selective in the items put under export control	75%
disagree	23%
The Dept. of Commerce should oversee export control	67%
disagree	25%
Why not send the Soviets high-tech goods	13%
disagree	85%
New textiles regs do more harm than good	44%
disagree	19%
National security and free trade can be balanced	83%
disagree	15%
I have more problems with Customs regs now	31%
no change	46%

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FORECAST

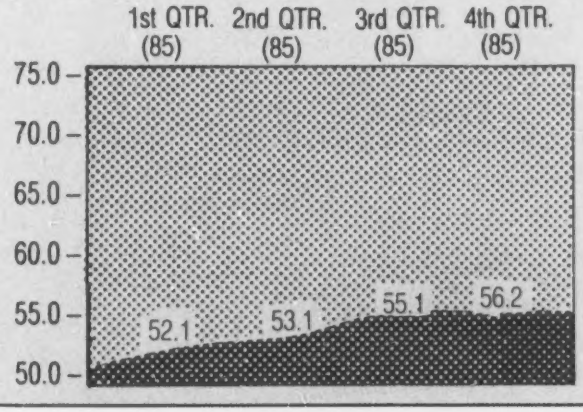
By Richard Lancioni, Ph.D.

GENERAL ECONOMIC INDICATORS–1985

	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.
Real GNP (trillions)	$3.8177	$3.8612	$3.9015	$3.9648
Retail Car Sales (Mil. units, annual rate)	11.1	10.9	10.7	10.5
Housing Starts (thousands of units, annual rate	1,665.1	1,661.9	1,660.7	1,709.4
Prime Rate (%)	12.1	11.9	11.8	11.5
Index of Industrial Production ('67=100)	166.6	166.9	167.6	168.2
Inflation Rate	4.2	3.5	3.3	4.2
Unemployment Rate	7.3	7.4	7.6	7.7
Net Exports (billions)	$78.9	$81.5	$84.4	$87.7
Corporate Profits (billions before taxes)	$228.5	$224.7	$218.3	$217.9

For the economy in general, growth will be much slower in 1985 compared to '84. The GNP will reach $3,817.7 trillion in the first quarter and grow by only 2 to 3 percent for the entire year. Retail car sales will reach the 10 to 11 million-dollar range in 1985, equalling the record pace of 1984. Housing Starts will show a moderate increase, also repeating the previous year's performance. The inflation rate will remain low in 1985, ranging from 3.5 percent to 4.2 percent through the fourth quarter. But hand-in-hand with low inflation will be unemployment, which could increase as the recovery slows down. The trade deficit will continue to be the dark cloud on the economic horizon, moderating somewhat in the first quarter, but rising to more than $87.7 billion in the fourth quarter.

PURCHASING MANAGERS COMPOSITE INDEX



The National Association of Purchasing Agents Index reported a decline at the end of 1984 and it looks forward to an increase in purchasing activity in 1985. DISTRIBUTION's estimate sees purchasing activity expanding throughout 1985, although at a much slower pace than in 1984, because of the slower than expected growth rate. Confidence should remain high among purchasing agents as interest rates remain low and consumer demand increases at a moderate level. Few shortages in critical materials are expected in 1985 and many industries will keep working stocks low in an attempt to reduce holding costs.

FORECAST

DISTRIBUTION INDEX–1985 FORECAST

	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.
Truck Shipments	141.9	142.3	143.7	144.0
Rail Shipments	123.4	125.9	126.3	126.9
Air Shipments	130.1	132.7	133.1	134.3
Water Shipments	115.8	115.9	117.3	118.1
Warehouse Space Utilization	133.3	134.1	135.6	135.1
Inventory Valuation	113.1	113.5	114.5	114.2

The Distribution Index for 1985 reflects the moderating trend in the other areas of the overall economy. Truck shipments will expand but only moderately from the 141.9 level in the first quarter to to 144.0 in the latter part of 1985. Rail shipments will increase much more slowly from 123.4 in the 1st quarter to only 126.9 in the last part of the year. Air shipments will increase by three points to 134.3 and water shipments from 115.8 to 118.1 by the end of 1985. Warehouse space utilization will grow but only slighty. Likewise, inventory valuation will rise only moderately from the 113.1 to 114.2 level, reflecting mild inflationary pressures.

DIESEL FUEL PRICES–1985 FORECAST

	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.
Full-Serve	130.9	132.0	132.0	133.0
Self-Serve	118.1	120.0	125.0	126.0

Source: American Trucking Associations

Energy prices should remain stable for 1985 and rise only moderately from 1984 levels. Self-service prices may rise to $1.25/gallon by mid-year and to $1.26/gallon by year's end. Prices could, in fact, even decline if nations such as Nigeria and Kuwait decide to break with OPEC and increase production in response to price cuts made by England and Norway.

TRANSPORTATION TONNAGE INDEXES (1977 = 100.0)

	1st QTR. '85	2nd QTR. '85	3rd QTR. '85	4th QTR. '85
Rail	91.845	92.847	93.000	94.000
Truck	160.100	162.300	162.300	163.000
Barge	(N/A)	(N/A)	(N/A)	(N/A)

Source: Data Resources Inc.

Freight tonnage hauled by the major modes will rise only moderately in 1985. Trucking will experience the greatest growth because discounting will continue and new firms will continue to enter the market at a record pace. Rail tonnage will increase but at a more moderate rate than in 1984. Water freight should recover from its somewhat lackluster growth in 1984 as steel and chemical companies increase their shipments in 1985.

TRANSPORTATION COST INDEXES (1977 = 100.0)

	1st QTR. '85	2nd QTR. '85	3rd QTR. '85	4th QTR. '85
Rail	184.0	186.0	187.0	187.0
Truck	172.0	173.0	175.0	175.0
Barge	186.0	186.0	188.0	188.0

Source: Data Resources Inc.

The cost of moving freight will increase only moderately in 1985. DISTRIBUTION estimates that rail costs will expand from the 184.0 level in the first quarter to 187.0 in the fourth quarter. Trucking costs will also rise by a moderate amount over the same period. As illustrated, the major components of transportation costs are fuel and labor, and they should increase only moderately in 1985, making the distribution manager's job of keeping down costs much easier.